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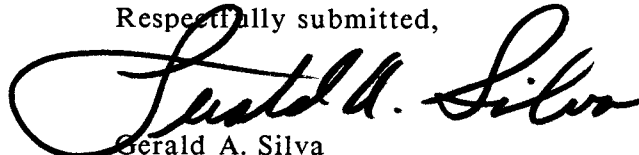
Honorable Chairman and Members
of the Redevelopment Agency Board
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on *The Audit Of The Site Delivery Process Of Redevelopment*. This report is in accordance with City Charter Section 805(a).

An Executive Summary is presented on the blue pages in the front of this report while an Administration response is shown on the yellow pages preceding the Appendices.

I will present this report to the Finance Committee at its January 20, 1988 meeting. If you need additional information in the interim, please let me know. City Auditor staff who participated in the preparation of this report are Mike Edmonds and Taylor Willingham.

Respectfully submitted,



Gerald A. Silva
City Auditor

EXSUM05
GS:mlt

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OFFICE OF THE
CITY AUDITOR

**AN AUDIT OF THE
SITE DELIVERY PROCESS OF REDEVELOPMENT**

A REPORT TO THE
SAN JOSE
CITY COUNCIL

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EXECUTIVE SUMMARY

In accordance with the City Auditor's approved 1987-88 Workplan, we have reviewed the site delivery process for redevelopment projects. We conducted our review in accordance with generally accepted government auditing standards and limited our review to those areas specified in the scope and methodology sections of this report.

In recent years, the City of San Jose's Redevelopment Agency has undertaken ambitious projects to further its downtown revitalization goals. Several of these projects have been in the Guadalupe-Auzerais Redevelopment Area. A significant aspect of the cost of the projects in the Guadalupe-Auzerais Redevelopment Area is the cost to prepare the site for construction. This process is referred to as the site delivery process and it includes 1) the acquisition of property from residents and businesses, 2) the relocation of tenants, property owners, and businesses, and 3) the management of the acquired properties until construction commences.

For Redevelopment Agency projects, the Redevelopment Agency (Agency) and the Department of Neighborhood Preservation jointly administer the site delivery process.

We reviewed the Redevelopment Agency's and the Department of Neighborhood Preservation's site delivery process for the Convention Center project and the following three Guadalupe-Auzerais West projects: 1) the Prevost Street widening (Phase I); 2) the High Technology Museum (Phase II); 3) the Children's Discovery Museum (Phase III). Specifically, we reviewed the adequacy of controls for 1) acquiring property, 2) relocating residents and businesses, and 3) managing the properties acquired. When we identified control weaknesses we also determined the associated risks of not having controls in place.

*The Redevelopment Agency And The
Department Of Neighborhood Preservation
Need To Clearly Define Their Respective
Responsibilities And Authority For The
Site Delivery Process Of Redevelopment*

The Redevelopment Agency and the Department of Neighborhood Preservation each have a rightful role in the site delivery process of redevelopment. Accordingly, the Agency and Department need to clearly define their respective responsibilities and authority in the process. However, our review revealed that the Agency and Department did not clearly define their respective roles regarding property acquisitions, relocation and property management in the Guadalupe-Auzerais Redevelopment Area. As a result, the Agency and Department 1) failed to establish site delivery accountability, 2) duplicated each other's efforts, 3) failed to establish control over rental

properties, and 4) provided the public with confusing, and at times, conflicting information. The Agency and the Department could prevent many site delivery process problems in the future by entering into a detailed and comprehensive Memorandum of Understanding.

*The Neighborhood Preservation Department
Needs To Develop A Formal Project Management System
In Order To Efficiently And Effectively
Relocate Residents Displaced As A
Result Of Redevelopment Activities*

The City's primary site delivery objectives are to provide fair, equitable and consistent treatment to displaced residents and to administer the site delivery process effectively, efficiently and economically. However, our review of the City's effort to relocate residents in the Guadalupe-Auzerais Redevelopment Area revealed that the Department did not relocate residents efficiently or in compliance with State requirements and the City incurred unnecessary costs. In order to prevent similar problems in the future, the Department of Neighborhood Preservation should develop a formal project management system that provides for adequate relocation planning, monitoring and directing.

RECOMMENDATIONS

We recommend that the Redevelopment Agency and the Department of Neighborhood Preservation:

Recommendation #1:

Develop and implement a written Memorandum of Understanding that can be used for all future site delivery projects. The Memorandum of Understanding should clearly define the respective roles of each entity for the following:

- Preparing project schedules
- Selecting appraisers
- Reviewing appraisals
- Negotiating with property owners
- Reviewing payment claims
- Communicating with residents
- Approving benefit payments
- Managing properties
- Receiving rental payments
- Pursuing delinquent rental accounts
- Securing vacated properties
- Maintaining acquired properties.

If Neighborhood Preservation and the Redevelopment Agency are unable to agree on the terms of the Memorandum of Understanding, the City Manager should resolve any differences.
(Priority 2)

Recommendation #2:

Develop a process whereby the Redevelopment Agency will transfer site delivery funds to Neighborhood Preservation at the beginning of a project. (Priority 3)

Recommendation #3:

Develop an inventory of Agency owned properties and assign the responsibility for managing these properties to either the Redevelopment Agency or the Department of Neighborhood Preservation.

(Priority 2)

Recommendation #4:

Develop formal policies and procedures for pursuing delinquent rents, evicting tenants, writing-off uncollectible rents, and communicating rental issues to the City Council or Agency Board.

(Priority 1)

We also recommend that the Department of Neighborhood Preservation:

Recommendation #5:

Develop a formal project methodology to provide an efficient and systematic method for planning and monitoring future projects. The project methodology should include the following:

1. A project planning checklist to be used as a guide for planning future projects.

2. Definition of the responsibilities and authority of all staff.
3. Standardized management reports of internal and external uses.
4. Formal lines of communication.
5. Procedures for modifying project schedules and plans.
6. Procedures for obtaining legal interpretations.
7. Procedures for developing detailed project plans.
8. Procedures for determining project staffing needs.
9. Procedures for developing detailed project schedules.
10. Procedures for estimating project costs, developing detailed budgets, and for revising budget estimates.
11. Procedures for reviewing project plans prior to implementation.
12. Procedures for monitoring the progress of projects including procedures for collecting data on progress, preparing progress reports, and comparing progress to plans.
13. Procedures for maintaining a project diary.
(Priority 2)

Recommendation #6:

Develop and implement a model outline of the site delivery process. This outline should:

- Identify all activities to be performed.
- Establish the timing of each activity.
- Establish performance requirements for each activity.
- Establish responsibility for performing activities.
(Priority 2)

Recommendation #7:

Provide periodic training to staff on its relocation procedures. (Priority 3)

Recommendation #8:

Develop procedures to ensure supervisory review of work and develop forms to document such reviews. (Priority 3)

Recommendation #9:

Develop formal procedures for verifying resident reported monthly income or rent and for using economic rent to calculate relocation benefits. (Priority 2)

Recommendation #10:

Develop written procedures for collecting and maintaining adequate relocation records. These procedures should specify requirements for the following:

- Data collection.
- File maintenance.
- Verification of eligibility.
- Documentation of compliance with applicable codes and regulations.
- Periodic supervisory review of files. (Priority 3)

Recommendation #11:

Request the authorization to purchase the following equipment:

- Computers to assist in maintaining files and calculating benefits for displaced residents.
- Project scheduling software to allow for efficient calculation and revision of project timelines.
(Priority 3)

In addition, we recommend that the Department of Neighborhood Preservation, the Redevelopment Agency and the Agency General Counsel:

Recommendation #12:

Jointly develop a written policy regarding the rights of those residents displaced by private parties in furtherance of public purpose projects. (Priority 3)

Finally, we recommend that the Redevelopment Agency General Counsel:

Recommendation #13:

Prepare for Neighborhood Preservation's staff a handbook that summarizes those laws and regulations that pertain to the site delivery process. (Priority 3)

Recommendation #14:

Review future site delivery projects for compliance with applicable codes and regulations. (Priority 3)

INTRODUCTION

In accordance with the City Auditor's approved 1987-88 Workplan, we have reviewed the site delivery process for redevelopment projects. We conducted our review in accordance with generally accepted government auditing standards and limited our review to those areas specified in the scope and methodology sections of this report.

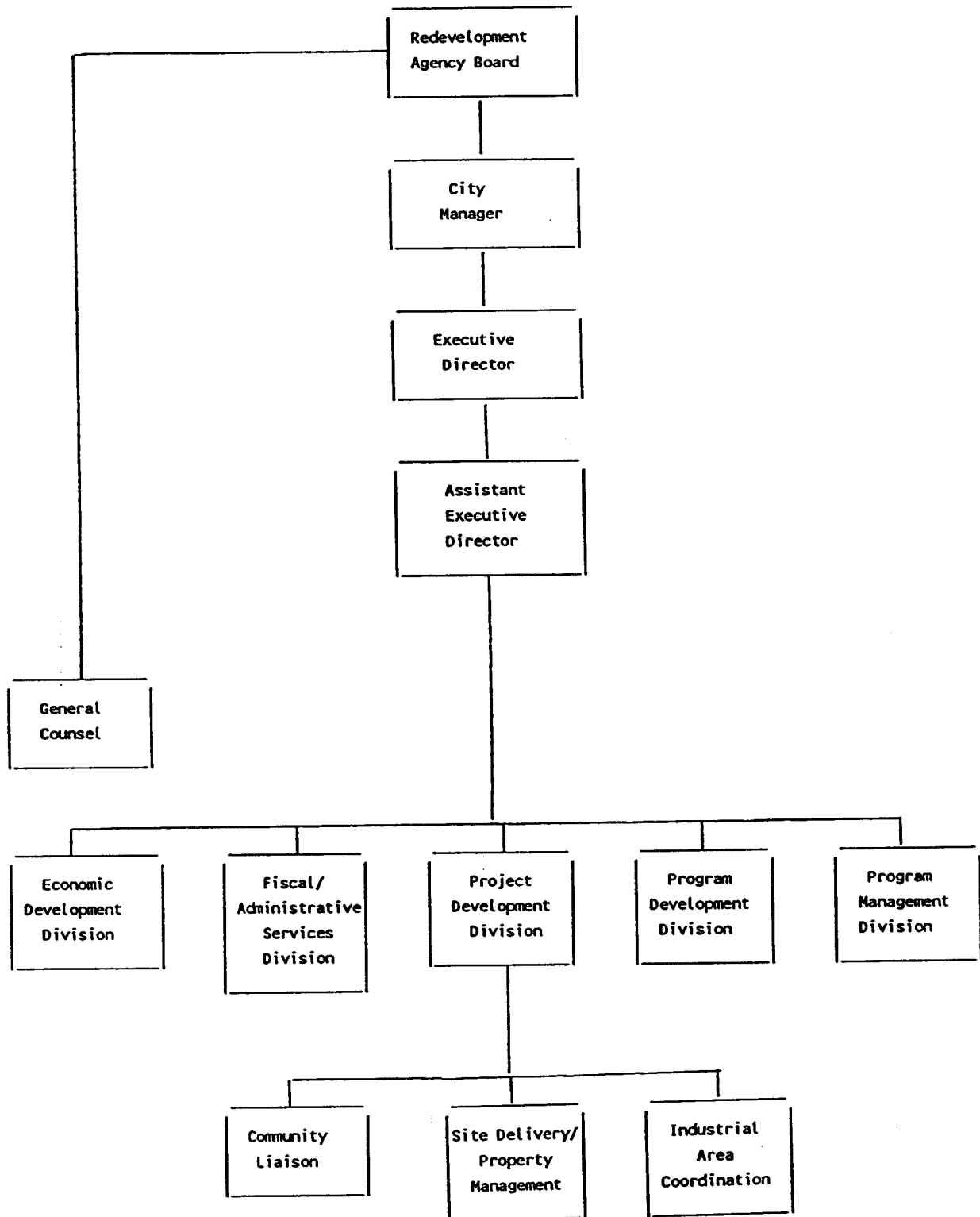
In recent years, the City of San Jose's Redevelopment Agency has undertaken ambitious projects to further its downtown revitalization goals. Several of these projects have been in the Guadalupe-Auzerais Redevelopment Area. These projects include the Convention Center, the High Technology Museum, the Children's Discovery Museum, and the widening of Prevost Street. For the City of San Jose, redevelopment projects of this type are a tremendous undertaking involving years of planning, complex issues, coordination between the Agency and other City Departments, and large expenditures of public and private funds. A significant aspect of the cost of the projects in the Guadalupe-Auzerais Redevelopment Area is the cost to prepare the sites for construction. This process is referred to as the site delivery process and it includes

- 1) the acquisition of property from residents and businesses,
- 2) the relocation of tenants, property owners, and businesses,
- and 3) the management of the acquired properties until construction commences.

For Redevelopment Agency projects, the Redevelopment Agency (Agency) and the Department of Neighborhood Preservation jointly administer the site delivery process. The Agency's Project Development Division is responsible for the Agency's site delivery activities. The Division monitors the activities of Neighborhood Preservation and coordinates the site delivery process with other city departments or other Agency divisions that are responsible for subsequent phases of the project. Due to the complex nature of the site delivery process and the level of expertise required, the Agency contracts with Neighborhood Preservation's Property Acquisition and Relocation Division for real estate services. These services include all aspects of property acquisitions from appraisals through escrow, commercial and residential relocation services, and property management.

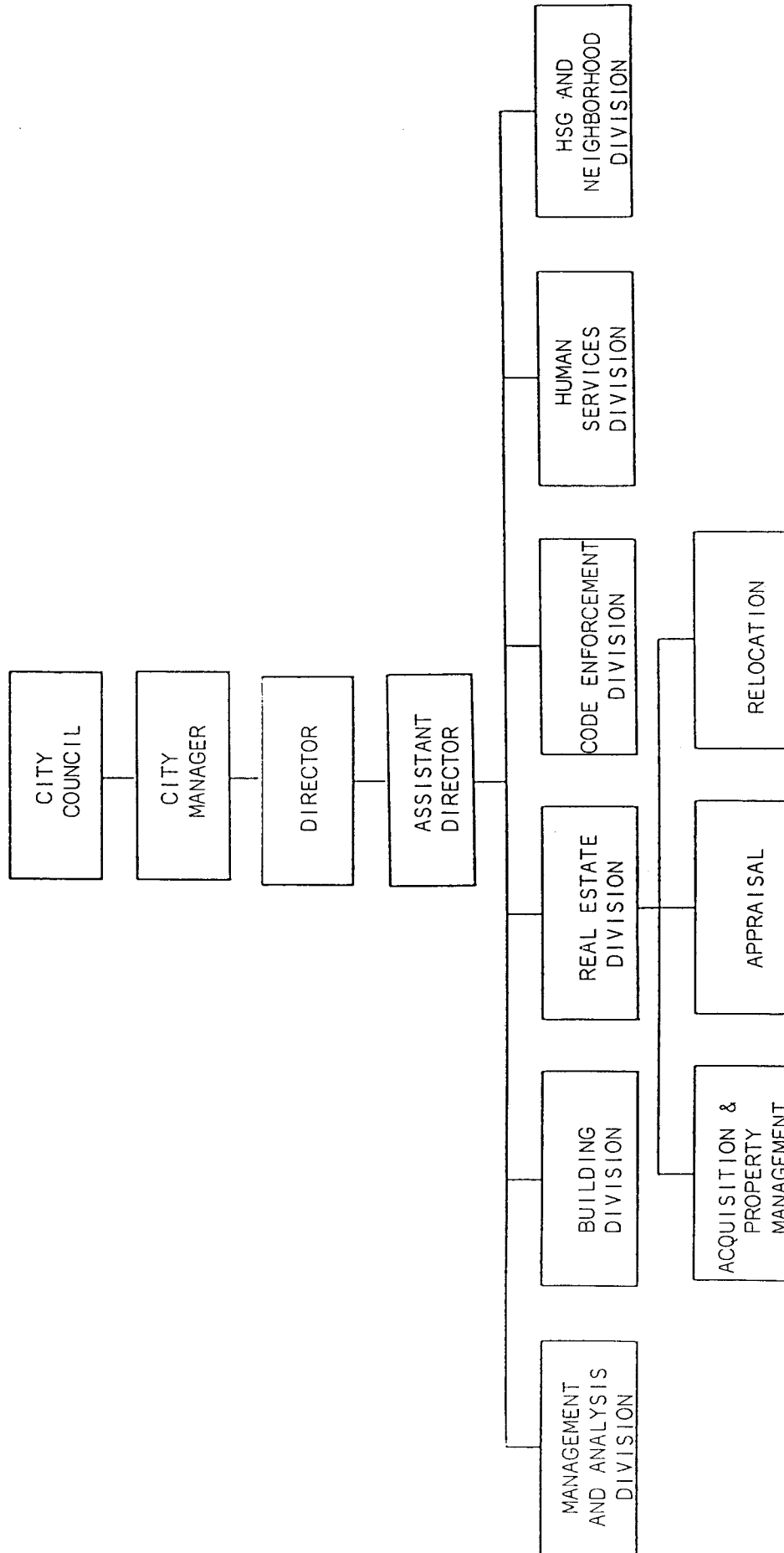
Both the Agency and Neighborhood Preservation have staff devoted to the site delivery process. The Agency has three budgeted positions for site delivery and property management. Site Delivery/Property Management is a component of the Project Development Division and is organizationally located within the Agency as is shown on Page 3.

ORGANIZATIONAL CHART
FOR THE REDEVELOPMENT AGENCY



Neighborhood Preservation has 32 budgeted positions in its Real Estate Division. These positions include the following: (1) Real Estate Administrator; (2) Supervising Real Estate Agents; (1) Planner; (9) Real Estate Agents; (2) Supervising Relocation Specialists; (12) Relocation Specialists; and (5) clerical positions. The Department's Real Estate Division is organizationally located within the Department as is shown on page 5.

ORGANIZATIONAL CHART
FOR THE
DEPARTMENT OF NEIGHBORHOOD PRESERVATION



The California Health and Safety Code and California Government Code govern the site delivery process for California Redevelopment Agencies. Furthermore, the Housing and Community Development Guidelines (Guidelines) assist in interpreting the Codes. These Guidelines impose minimum requirements on redevelopment agencies to ensure uniform, fair, and equitable treatment to owners of real property and to displacees. Specifically, the Guidelines address the following areas of acquisition and relocation:

- Establishing value for property
- Determining eligibility for relocation benefits
- Compensation for displacement
- Services to be provided by the displacing entity
- Time requirements for acquisition and relocation activities.

Table I summarizes the number of residents relocated, the number of relocation claims processed, relocation costs and property acquisition costs associated with the site acquisitions for the Convention Center, the High Technology Museum, the Children's Discovery Museum, the Prevost Street widening and private development.

TABLE I

<u>Project</u>	<u>Number of Parcels</u>	<u>Acquisition Cost</u>	<u>Number of People Relocated</u>	<u>Number of Relocation Claims Processed</u>	<u>Relocation Cost</u>
Convention Center	48	\$15,696,000	233	95	\$ 720,561
Guadalupe-Auzerais West					
Prevost Street Widening (Phase I)	11	4,885,000	50	25	599,042
High Technology Museum (Phase II)	24	10,502,000	131	44	1,051,520
Children's Discovery Museum (Phase III)	19	3,535,000	80	32	742,206
Private Development	<u>N/A</u>	<u>N/A</u>	<u>40</u>	<u>15</u>	<u>321,512</u>
TOTALS	<u>102</u>	<u>\$34,618,000</u>	<u>534</u>	<u>211</u>	<u>\$3,434,841</u>

SCOPE AND METHODOLOGY

We reviewed the Redevelopment Agency's and the Department of Neighborhood Preservation's site delivery process for the Convention Center project and the following three Guadalupe-Auzerais West projects: 1) the Prevost Street widening (Phase I); 2) the High Technology Museum (Phase II); 3) the Children's Discovery Museum (Phase III). Specifically, we reviewed the adequacy of controls for 1) acquiring property, 2) relocating residents and businesses, and 3) managing the properties acquired. When we identified control weaknesses we also determined the associated risks of not having controls in place.

We reviewed acquisition activities to determine whether controls are in place to ensure the City pays a fair price for the property it acquires and whether the title on property is clear of any obligations. In addition, we evaluated whether Neighborhood Preservation and the Redevelopment Agency adequately coordinated their work. To accomplish our objectives we:

- Reviewed acquisition laws and regulations
- Reviewed appraisals on properties purchased
- Compared appraisals to the purchase price of the property
- Reviewed title reports
- Interviewed appraisers, Agency staff, and Neighborhood Preservation staff.

We also reviewed relocation activities to determine whether residents received fair, equitable, and consistent treatment and whether the relocation costs were reasonable. To accomplish our objectives we:

- Reviewed applicable relocation laws and regulations
- Reviewed the relocation plans
- Reviewed the adequacy of project plans and schedules
- Performed various tests to evaluate whether the City complied with applicable laws and regulations
- Interviewed Neighborhood Preservation and Agency staff
- Interviewed residents displaced
- Reviewed available Neighborhood Preservation and Agency records and files
- Determined the cost of relocation activities
- Assessed the appropriateness of relocation payments.

In addition, we reviewed property management activities to determine whether the City is complying with applicable laws and regulations. Accordingly, we determined whether the City has adequate controls in place to manage Agency owned properties. Finally, we determined whether Neighborhood Preservation and the Agency adequately coordinate their property management activities. To accomplish our objectives we:

- Reviewed applicable laws and regulations
- Documented the controls for property management activities
- Interviewed Neighborhood Preservation and Agency staff.

FINDING I

THE REDEVELOPMENT AGENCY AND THE DEPARTMENT OF NEIGHBORHOOD PRESERVATION NEED TO CLEARLY DEFINE THEIR RESPECTIVE RESPONSIBILITIES AND AUTHORITY FOR THE SITE DELIVERY PROCESS OF REDEVELOPMENT

The Redevelopment Agency and the Department of Neighborhood Preservation each have a rightful role in the site delivery process of redevelopment. Accordingly, the Agency and Department need to clearly define their respective responsibilities and authority in the process. However, our review revealed that the Agency and Department did not clearly define their respective roles regarding property acquisitions, relocation and property management in the Guadalupe-Auzerais Redevelopment Area. As a result, the Agency and Department 1) failed to establish site delivery accountability, 2) duplicated each other's efforts, 3) failed to establish control over rental properties, and 4) provided the public with confusing, and at times, conflicting information. The Agency and the Department could prevent many site delivery process problems in the future by entering into a detailed and comprehensive Memorandum of Understanding.

Responsibilities In The Site Delivery Process

The City Manager has assigned responsibility for the City's real estate functions to the Department of Neighborhood Preservation. Accordingly, Neighborhood Preservation administers for

the Redevelopment Agency a site delivery process consisting of property acquisition, residential and business relocation, and property management.

The Redevelopment Agency is also involved in the site delivery process. Because of its large capital program, the Agency has a vested interest in Neighborhood Preservation carrying out its activities in an effective, efficient, economical, and timely manner. Therefore, the Agency monitors Neighborhood Preservation's Redevelopment site delivery process. The City Manager has also authorized the Agency, under specific circumstances, to be the lead agency for site delivery activities. For example, the Agency has the authority to be the lead agency in purchasing "sensitive" properties that are critical to the downtown redevelopment program. In addition, the Agency has the authority to manage its own properties that are to be leased on a long-term basis. These properties usually have a Disposition and Development Agreement with a developer.

*Did Not Clearly Define
Their Functional Responsibilities*

Because both the Department of Neighborhood Preservation and the Redevelopment Agency are involved in the site delivery process, they need to clearly define their functional responsibilities and their reporting relationships to ensure the following:

- Clear accountability
- Maximum effectiveness and efficiency
- Minimum confusion
- Adequate control

Our review revealed that for the site delivery process in the Guadalupe-Auzerais Redevelopment Area, the Redevelopment Agency and Department of Neighborhood Preservation did not clearly define their functional responsibilities. Consequently, many organizational problems occurred throughout the site delivery process. Specifically, we identified the following problems:

- Diffused accountability
- Duplication of effort
- Poorly organized property management
- Residents received inaccurate and conflicting information

Diffused Accountability

Accountability is a necessary management control to facilitate the assessment of individual or organizational performance and the initiation of corrective action when necessary. However, accountability for the site delivery process in the Guadalupe-Auzerais Redevelopment Area was never clearly established.

TABLE II identifies the functional areas in which the Redevelopment Agency and Department of Neighborhood Preservation have not clearly defined their responsibilities and authority.

TABLE II

SUMMARY OF FUNCTIONAL AREAS IN WHICH THE DEPARTMENT OF NEIGHBORHOOD PRESERVATION
AND THE REDEVELOPMENT AGENCY HAVE NOT CLEARLY DEFINED THEIR RESPONSIBILITIES AND AUTHORITY

<u>SITE DELIVERY FUNCTION</u>	<u>NEIGHBORHOOD PRESERVATION'S ROLE</u>	<u>REDEVELOPMENT AGENCY'S ROLE</u>
Project Management	Provided input on project schedules	Prepared project schedules
Acquisition	Established list of appraisers	Selected Appraisers
	Reviewed appraisals	Reviewed appraisals
	Prepared written offers	
	Negotiated with property owners	Occasionally directed Neighborhood Preservation staff to accept offers from property owners
	Prepared payment claims	
	Reviewed payment claims	Reviewed payment claims
		Issued warrants
		Purchased certain properties
Relocation	Communicated to residents	Communicated to residents
	Approved benefits for some residents	Denied benefits to the same residents
	Prepared payment claims	
	Reviewed payment claims	Reviewed payment claims
		Issued warrants
	Prepared Last Resort Housing Plan for the Convention Center	
	Submitted plan to the Agency	Agency received Last Resort Housing Plan
Property Management	Received some rental payments on properties	Received most rental payments on properties
		Maintained records on rental property accounts
		Prepared delinquency reports.
	Received delinquency reports from Agency	
	Pursued delinquent accounts	
	Secured vacated properties	Secured vacated properties
	Maintained properties	Maintained properties

As is shown in TABLE II, accountability was blurred because both the Department and Agency were involved in many similar site delivery process activities. As a result, Management lacked an adequate basis for assessing and correcting individual or organizational performance in the Guadalupe-Auzerais Redevelopment site delivery process. For example, as TABLE II indicates, while the Redevelopment Agency prepared the project schedules and established project deadlines, the Department of Neighborhood Preservation was responsible for implementing the project and meeting the project deadlines. In addition, although Neighborhood Preservation was responsible for the implementation of the project, Agency staff sometimes directed the Department's staff. Finally, while the Redevelopment Agency has the authority to purchase certain "sensitive" properties, the Agency does not have a formal system to so notify the Department. As a result, City officials did not always know when the Agency was purchasing properties on its own.

Duplication Of Effort

Our review also revealed several instances in which Neighborhood Preservation staff and the Redevelopment Agency staff essentially performed the same tasks. Specifically, the Agency and the Department both reviewed appraisal reports on properties to be acquired and payment claims for property

acquisitions and relocation benefits. Such duplication of effort represents an inefficient use of staff time and resources, and unnecessarily delays the completion of important site delivery tasks.

Both The Department And Agency Reviewed Appraisal Reports

For non-Agency property acquisitions, Neighborhood Preservation contracts with professional appraisers to provide a written estimate of the fair market value of the property prior to making a written offer to the property owner. The Department usually hires two appraisers to appraise each parcel of property to be acquired. Upon completion, Neighborhood Preservation staff review the appraisals and reconcile any differences between them. Once the Department accepts an appraisal report it becomes the basis for the City's initial offer to the property owner. The City's offer should be made as quickly as possible to ensure that the appraisal reflects current market conditions.

Our review, however, revealed that for Agency property acquisitions, it is the Agency and not the Department that contracts with the professional appraiser. Further, the Agency performs an additional and unnecessary review of the reports these contract appraisers prepared. Specifically, after Neighborhood Preservation staff reviewed the appraisals, the

Redevelopment Agency staff performed a second review. According to Agency staff, their second review was necessary to monitor the cost of land acquisitions. That contention notwithstanding, the Agency's additional review of appraisals seems to be unnecessary and superfluous. Specifically, while Neighborhood Preservation has certified appraisers on its staff to either do appraisals or review them, the Redevelopment Agency does not. Thus, it appears that the Agency's additional review of appraisals adds very little to the site acquisition process, and may result in unnecessary delays that could cause the City to pay higher prices for the property it acquires.

Both The Department And Agency Reviewed Payment Claims

Prior to making payments to either buy property or pay relocation benefits, Neighborhood Preservation prepares a payment claim. Such claims provide the documentation necessary to ensure that payments are appropriate. The regular payment claims processing procedure is as follows:

1. Department staff in the field prepare the claim and submit it to Neighborhood Preservation for review.
2. Neighborhood Preservation subjects the claim to two levels of review and submits it to the Department's Finance Accounting Division.*
3. The Accounting Division staff review the claim and issue a warrant.

*The Neighborhood Preservation payment review process was reduced to one level of approval in December, 1985 to increase the speed of issuing checks.

However, unlike normal payment claims, those for the Guadalupe-Auzerais Redevelopment Area underwent several additional reviews. Specifically, instead of submitting these claims to Accounting for payment, Neighborhood Preservation submitted them to the Redevelopment Agency which subjected the claims to seven levels of review before making payment. This additional claims review process was not only cumbersome, but duplicated Neighborhood Preservation's review as well. Furthermore, the Agency's review delayed payments to displacees and ultimately hindered Neighborhood Preservation's ability to adequately control those functions for which it was accountable. In many instances, Neighborhood Preservation staff wasted time tracking down relocation payments. Moreover, Department staff did not know how long it would take the Agency to process payments. As a result, staff were unable to provide residents with reliable information on when they would receive their benefits. For example, an October 20, 1986 memorandum from a Department Relocation Specialist stated in part:

"...We have not yet received any of these checks. This has caused our office to be inundated with telephone calls and visits from angry residents, landlords, escrow officers, sellers, and realtors. Sellers are threatening to pull-out of their purchase agreements and some escrows are in danger of falling apart.

Please inform us when we will receive checks from the Redevelopment Agency so that we may forward that information to our clients and contacts..."

We were informed of one case where Neighborhood Preservation's inability to get a check from the Agency resulted in the Director of Neighborhood Preservation having to write a check from her personal checking account to pay for a resident's moving expenses. Overall, the Agency's additional claims review averaged 17 days with one review taking as long as 62 days.

According to Agency personnel their additional review of payment claims is necessary to maintain fiscal control over those funds for which it is responsible. While the Agency's actions appear to be well intentioned, it should be noted that other City Departments follow different procedures when Neighborhood Preservation is administering a site delivery project for them. Specifically, other City departments transfer site delivery funds to Neighborhood Preservation at the beginning of the project. This allows Neighborhood Preservation to administer the claims process, maintain fiscal control over the funds transferred, and expedite the payment of claims.

Poorly Organized Property Management Functions

The City's handling of the property management function in the Guadalupe-Auzerais Redevelopment Area is indicative of the poor organization of the site delivery process. Specifically, we found the following organizational problems:

- Responsibilities were not clearly defined
- Accountability was diffused
- Coordination was poor

As a result, the City did not pursue approximately \$50,000 in delinquent rents or secure abandoned units in a timely manner.

When project plans were developed for the Guadalupe-Auzerais Redevelopment Area, the City intended to relocate residents and demolish housing units as soon as possible after acquiring properties. Accordingly, the City did not anticipate residents remaining in those housing units it acquired. However, because of legal entanglements, residents were allowed to stay in their dwellings longer than expected and enter into a rental agreement with the City. Although some tenants remained in City owned properties for more than a year, Neighborhood Preservation and the Redevelopment Agency never did clearly define how the rented properties should be managed. As a result, these rental properties were managed poorly.

The City Did Not Pursue Delinquent Accounts

After the residents in the Guadalupe-Auzerais West Phases began renting from the City, many residents stopped paying rent. However, the City did not deal with this problem in a planned and coordinated manner. Specifically, the City did not

follow any prescribed policy or procedure for pursuing delinquent rents. Instead, the City essentially did nothing. As a result, the City lost approximately \$50,000 because it did not pursue delinquent rents.

The Agency and Neighborhood Preservation have not established an adequate system for managing Agency owned properties and pursuing delinquent rents. Specifically, the Agency and Neighborhood Preservation do not know which of the current inventory of rental properties each is responsible for managing. In addition, neither the Department nor the Agency have developed and implemented policies or procedures for pursuing delinquent accounts and writing-off rents that are uncollectible.

A September 24, 1986, memorandum from the Department of Neighborhood Preservation Real Estate Administrator to the Department Director illustrates the importance of having formal, adopted procedures and guidelines. The memorandum states in part:⁽¹⁾

"During the past few months, the issue of pursuit of past due rents has become increasingly more difficult. Due to the effects of the LRHP (Last Resort Housing Plan) negotiation process whereby several tenants were allowed to accrue sizable past due balances, it has become impossible to deal equitably with other Agency tenants who have less impressive balances, but who are nevertheless delinquent. Direction for the Real Estate Staff is inconsistent and is often times based on information not shared with this staff...."

⁽¹⁾ Appendix--contains a full text of this memorandum

...It is my strong feeling that a simple, consistent procedure for both the City and the Agency regarding unlawful detainers is in order and I am outlining it below....

...Clearly, there will be cases where the City Council will need to be informed and staff will be required to exercise judgment in making sure that the Council's need to know is not in conflict with a fast-moving process....

...This procedure or another with similar aims is badly needed in order to better organize our efforts and is long overdue.

The attached documents show an ever increasing number of rental accounts and growing numbers of delinquencies. Lack of consistency is confusing for both the property managers and the tenants...."

The following two memoranda further evidence the organizational confusion that arose over the absence of a delinquent rent policy. The first memorandum is dated November 18, 1986, and is from the Chief of Accounting to the Director of Finance and it states in part:

"...In addition, there are delinquencies for rental payments for Agency-owned residential and commercial properties. Some tenants are significantly in arrears in payments, and there appears to be some doubt that they will ever be dependable or current. The auditors have therefore reclassified prior years' rent receivables to a separate category, and have recommended that the Agency consider developing a policy for write-off of non-collectible receivables.

Both of these actions have implications beyond the simple accounting transactions. They might be viewed as an indication that the Agency is not intending to perform serious collection efforts on delinquent payments or bad loans. They may also call into question the quality of the initial loan or rental agreement..."

The second memorandum is dated June 9, 1987, and is from the Agency's Director of Fiscal and Administrative Services to the Chief of Accounting.

"...The rents that were written off last year at the direction of the Fiscal Officer should not have been done without a policy decision by the Executive Director. As your analysis showed, several of the tenants had not vacated and the Agency was in a position to collect that past due rent. I have asked for a policy decision on these outstanding balances and do not want anything written off until that decision is made.

I concur that the amounts for ... current tenants, should not be written off. It was inappropriate that amounts were written off for them and that entry should be reversed..."

Clearly, the Agency and Neighborhood Preservation need to develop formal policies, procedures and guidelines for delinquent rents and obtain City Council or Agency Board approval of any policies developed.

Securing Abandoned Units

After the City relocated residents from their housing units, the utilities were to be disconnected and the housing units secured (boarded-up) to prevent unauthorized uses of the units. In order to secure a unit, the following process was used:

1. The staff in Neighborhood Preservation's field office notified Neighborhood Preservation's Property Management section that a housing unit was vacant.
2. The Property Management Section notified the utility companies to disconnect the utilities.
3. The Property Management Section then notified the Redevelopment Agency that the housing unit needed to be secured.
4. The Redevelopment Agency called a contractor and requested that the unit be secured.
5. The contractor secured the unit.

Because the above process was cumbersome and not well-coordinated, it did not always work well. As a result, some units were not secured in a timely manner. Consequently, unauthorized uses of some of the unsecured units occurred. This created both a security and a safety problem for the residents still living in the area and a potential liability problem for the City. In our opinion, the process of securing a vacant housing unit could be streamlined if the Department was made responsible for the entire process.

Residents Received Inaccurate And Conflicting Information

The Agency and Neighborhood Preservation's failure to define their responsibilities resulted in poor communication to the residents. Both the Department and the Agency communicated with residents independent of each other. According to some residents, they were never sure whether the Agency or the Department was managing the project. As a result, the residents did not know whether to communicate their problems to the Agency or the Department.

In addition, the Agency and the Department did not clearly define their responsibilities for determining resident eligibility for relocation benefits. In at least three instances, the

Director of Neighborhood Preservation approved relocation benefits for specific residents. However, the Agency subsequently delayed payment of these benefits and conducted an additional review of the resident's eligibility. Furthermore, the Agency notified one resident that her benefits had been denied. Such contradictory actions can create both an image and a public relations problem for the City. In our opinion, either the Agency or the Department need to clearly assume responsibility for tasks such as communicating with residents and approving relocation payments in order to avoid a recurrence of the problems cited above.

Corrective Action

During the last year, the Redevelopment Agency and the Department of Neighborhood Preservation have more clearly defined their respective responsibilities in the site delivery process. Specifically, the Agency and Department are developing a Memorandum of Understanding for the arena project. In addition, on another project, the Agency and the Department developed a written outline of their respective responsibilities. Furthermore, communication between the Agency and Department seems to have improved. However, an overall Memorandum of Understanding that can be used as the basis for all future site delivery projects has not been developed in spite of an Agency and Department effort of more than one year to do so.

CONCLUSION

The Redevelopment Agency and Neighborhood Preservation did not clearly define their respective responsibilities in the site delivery process for the Guadalupe-Auzerais Redevelopment Area. As a result, the site delivery process was replete with diffused accountability, duplication of effort, poorly organized property management and the dissemination of inaccurate and conflicting information to residents.

RECOMMENDATIONS

We recommend that the Redevelopment Agency and the Department of Neighborhood Preservation:

Recommendation #1:

Develop and implement a written Memorandum of Understanding that can be used for all future site delivery projects. The Memorandum of Understanding should clearly define the respective roles of each entity for the following:

- Preparing project schedules
- Selecting appraisers
- Reviewing appraisals
- Negotiating with property owners
- Reviewing payment claims
- Communicating with residents

- Approving benefit payments
- Managing properties
- Receiving rental payments
- Pursuing delinquent rental accounts
- Securing vacated properties
- Maintaining acquired properties.

If Neighborhood Preservation and the Redevelopment Agency are unable to agree on the terms of the Memorandum of Understanding, the City Manager should resolve any differences.
(Priority 2)

Recommendation #2:

Develop a process whereby the Redevelopment Agency will transfer site delivery funds to Neighborhood Preservation at the beginning of a project. (Priority 3)

Recommendation #3:

Develop an inventory of Agency owned properties and assign the responsibility for managing these properties to either the Redevelopment Agency or the Department of Neighborhood Preservation. (Priority 2)

Recommendation #4:

Develop formal policies and procedures for pursuing delinquent rents, evicting tenants, writing-off uncollectible rents, and communicating rental issues to the City Council or Agency Board. (Priority 1)

FINDING II

THE NEIGHBORHOOD PRESERVATION DEPARTMENT NEEDS TO DEVELOP A FORMAL PROJECT MANAGEMENT SYSTEM IN ORDER TO EFFICIENTLY AND EFFECTIVELY RELOCATE RESIDENTS DISPLACED AS A RESULT OF REDEVELOPMENT ACTIVITIES

The City's primary site delivery objectives are to provide fair, equitable and consistent treatment to displaced residents and to administer the site delivery process effectively, efficiently and economically. However, our review of the City's effort to relocate residents in the Guadalupe-Auzerais Redevelopment Area revealed that the Department did not relocate residents efficiently or in compliance with State requirements and the City incurred unnecessary costs. In order to prevent similar problems in the future, the Department of Neighborhood Preservation should develop a formal project management system that provides for adequate relocation planning, monitoring and directing.

Objectives of the Site Delivery Process

The City has two primary objectives for the site delivery process. The City's first primary site delivery objective is to provide fair, equitable, and consistent treatment to displaced residents. This objective is specified in State Law and in the City's stated policy which reads:

"The policy of the City of San Jose shall...be fair, equitable treatment...and (tenants) shall not suffer disproportionate injuries as a result of projects designed for the benefit of the public as a whole..."

The second major site delivery objective is to ensure that the site acquisition process is administered in the most effective, efficient, and economical manner. Accordingly, the City has a responsibility to:

- Pay fair and reasonable prices for property
- Pay fair and reasonable relocation benefits
- Conduct the process in an effective and efficient manner, thus minimizing the overall cost of the project.

THE CITY DID NOT INITIALLY PROVIDE
FAIR, EQUITABLE, AND CONSISTENT
TREATMENT TO SOME RESIDENTS

Our review found that the City did not initially provide fair, equitable, and consistent treatment to some residents. Specifically, the City:

- Did not comply with State Guidelines intended to provide fair, equitable, and consistent treatment to residents, and
- Created unnecessary hardships for some residents.

The City Did Not Comply With Guidelines

The State of California's Relocation Assistance and Real Property Acquisition Guidelines (Guidelines) were adopted to provide guidance for implementing and interpreting specific provisions of Section 7260 of the Government Code relating to relocation assistance, Last Resort Housing, and real property acquisition. The Guidelines are designed to 1) ensure uniform,

fair, and equitable treatment to persons displaced from their homes, businesses, or farms as a result of the actions of a public entity, and 2) ensure consistent and fair treatment of property owners. To ensure fair, equitable, and consistent treatment to displacees, the Guidelines state that no public entity may proceed with any phase of a project or other activity which will result in the displacement of any person until it has determined that adequate provisions have been made to provide orderly, timely, and efficient relocation of eligible persons to comparable replacement housing. Section 6010 of the Guidelines further requires the preparation of a Relocation Plan which adheres to the following criteria outlined in section 6038:

- The plan shall include a survey of relocation needs and a survey of relocation resources and shall be initiated within 15 days of the initiation of negotiations.
- The plan shall include a detailed plan by which any Last Resort Housing (as described in Section 6054 and Article 4) is to be built and financed.
- The plan shall be approved by the local legislative body.

Our review found that the City did not comply with the Guidelines. Specifically, we found the following violations:

- The City did not initiate a relocation plan in a timely manner
- The City did not follow procedures for Last Resort Housing

- The Redevelopment Agency Board, acting as the local legislative body, did not approve Last Resort Housing Plans.

*The City Did Not Initiate
A Relocation Plan In A Timely Manner*

The Guidelines require that the displacing entity initiate a relocation plan within 15 days following initiation of negotiations to purchase the property. The plan must include a written analysis of the aggregate needs of all persons to be displaced and a detailed explanation of how these needs are to be met. The intent of this section is to ensure that *no displacement activity occurs until the housing needs of the displacees have been identified and adequately addressed.*

In addition to identifying the needs of the displacees, the Relocation Plan provides information critical to effectively plan and control the relocation project and ensure compliance with applicable codes and regulations. In fact, relocation consultants, experts from other redevelopment agencies and staff from the Department of Housing and Community Development recommend that the relocation plan be completed and adopted prior to property acquisition. Early preparation of the Relocation Plan accomplishes the following:

- Improves fiscal control by documenting individuals who have been in residence at least 90 days prior to the first offer and are therefore eligible for relocation benefits. Absent this control, it is more difficult to detect or defend against fraudulent relocation claims filed by non-documented residents.

- Improves budgetary control by identifying additional relocation costs attributable to the displacement of low income residents.
- Provides information to the residents in the project area through personal interviews and mitigates the trauma of displacement by demonstrating the City's commitment to meeting the housing needs of the displacees.
- Allows staff more time to plan ways to meet the special needs of the displacees. This may involve hiring bilingual staff, establishing a field office and arranging for special services for senior citizens or physically limited residents.
- Provides the opportunity to more effectively use City housing programs to meet the housing needs of the displacees through early coordination between the Agency and Neighborhood Preservation. This is particularly critical when comparable replacement housing is not available and Last Resort Housing is necessary.
- Allows the City more time to adjust the project schedule or hire staff or consultants if necessary.

The City did not comply with the Guidelines regarding the timely preparation of the Relocation Plan. Specifically, although the City began negotiations for the acquisition of property for the Convention Center in September 1983, it did not contract for the preparation of the Relocation Plan until April 1984, eight months later. Thus, by definition, the City did not initiate plans for relocation within 15 days following initiation of negotiations to purchase the property as required by the Guidelines. As a result, the City proceeded with the project absent information that was needed to adequately address residents' relocation needs and to comply with the Guidelines.

The City Did Not Follow Last Resort Housing
Procedures Specified In The Guidelines

When the displacing entity is unable to demonstrate that comparable replacement housing as defined by Section 6008.C is available, it must comply with the procedures set forth in Article 4 of the Guidelines. The procedures set forth in Article 4 are commonly referred to as Last Resort Housing and includes the following provisions:

- The head of the (displacing) public entity shall determine whether to use the public entity's funds or funds authorized for the project to provide such housing or modify, suspend, or terminate the project.
- The head of the public entity shall develop or cause to be developed a replacement housing plan to provide a sufficient number of comparable replacement dwellings and shall specify the prices at which such housing will be rented or sold to the families and individuals to be displaced.
- If the need for last resort housing exceeds 25 units, the head of the agency shall establish a committee composed of representatives from the displacees and appropriate public agencies to consult with and provide advice and assistance to the displacing entity on the development of the plan.
- The head of the displacing entity shall submit the plan and significant amendments to the Department of Housing and Community Development, and local housing and planning agencies for comment to ensure that the plan accurately reflects housing conditions in the relocation area. General notice of the plan (designed to reach the residents) shall also be provided.

Our review found that for the Convention Center project, the City did not follow the Last Resort Housing provisions. Specifically, Section 6038 clearly requires that a Last Resort

Housing Plan must include a detailed plan by which any last resort housing is to be built and financed. However, the City's plan to meet Last Resort Housing needs did not adequately specify how comparable replacement housing would be produced. Instead, the City's Convention Center Last Resort Housing Plan only identified potential sources for comparable replacement dwellings and those resources cited did not meet the definition of comparable replacement housing. For example, the plan identified federally subsidized units that had long waiting lists and 20% Housing units that had not been built or were not affordable as comparable replacement housing. Units which are not within the financial means of the displacee may not be considered a relocation resource, nor can federally subsidized housing be counted as a resource unless the number of units available in the community exceeds the number of households in need of the units.

In addition, there is no evidence that the head of the displacing entity (the Redevelopment Agency) caused a Citizen's Participation Committee to be created for the purpose of providing advice and approving the plan. According to a Neighborhood Preservation staff member, a Citizen's Participation Committee was formed and meetings were held. However, no records exist to document the meetings, the committee's approval of the plan, or any other input from the committee. In addition, the plan was not submitted to the Department of Housing and Community Development or local

housing and planning agencies for review or comment to ensure that the plan accurately reflected housing conditions and needs in the relocation area.

Our review also revealed that the City initiated displacement activity in the Guadalupe-Auzerais West Phase I project without fulfilling the requirements of the Last Resort Housing provisions. Specifically, the City sent 90-day notices to vacate to some residents prior to fulfilling the previously mentioned Last Resort Housing requirements. Thus, the City initiated displacement activity without completing some of the tasks necessary to comply with the Guidelines.

*The Agency Board Did Not Approve
Last Resort Housing Plans*

Section 6038 requires legislative body approval of a Last Resort Housing Plan prior to proceeding with any phase of a project that will result in displacement. However, our review revealed that for the Convention Center Project the Board never did receive or approve a Last Resort Housing Plan. Instead, the Board only received and approved a document entitled "Relocation Plan for the Convention Center Expansion Project." This document, however, was simply a survey of the residents and the housing market and did not include a Last Resort Housing Plan component as required by Section 6038. It should be noted that the City subsequently prepared a document entitled, "Convention Center Last Resort Housing Plan". However, the Board never reviewed or approved the Plan.

We also found that the City did not submit a Guadalupe-Auzerais West Phase I Last Resort Housing Plan to the Redevelopment Agency Board for review and approval prior to initiating displacement activities.

The City Created Hardships For Residents

Our review found that in addition to not complying with Guidelines, the City created unnecessary hardships for residents living in the redevelopment area. Specifically, we found that the City:

- Did not calculate the displacees relocation benefits prior to sending them 90-day notices to vacate
- Did not properly calculate residents' relocation benefits
- Did not adequately address the relocation needs of residents displaced because of private development
- Experienced communication problems with residents

*Did Not Determine Relocation Benefits
Prior To Sending Notices To Vacate*

Neighborhood Preservation sent residents informational notices that they would need to vacate their property in approximately 90 days. However, the Department sent these notices prior to determining residents' relocation benefits. As a result, some residents became concerned that they would

be displaced without receiving sufficient benefits to allow for relocating to a comparable replacement dwelling. According to a Department Relocation Supervisor, this practice occurred because of the extreme time pressure the Department was under to vacate residents and that it would have been preferable to mail the benefit statements before the 90-day notices.

*Did Not Properly Calculate
Residents' Relocation Benefits*

For residents living in rental properties that are to be acquired, the State Guidelines require that replacement housing payments (relocation benefits) be calculated in the following manner. The difference between the monthly rent on a comparable replacement dwelling and the "base monthly rental" on the dwelling to be acquired is multiplied by 48 (months). The Guidelines specify that the "base monthly rental" is to be the lesser of the displaced person's average monthly rent or 25 percent of the displaced person's income. The intent of this requirement is to ensure that displaced persons do not pay more than 25% of their monthly income for comparable replacement housing.

Our review found, however, that Neighborhood Preservation staff did not always consider income in calculating relocation benefits. For example, in the Guadalupe-Auzerais West Phase I

project area, staff mailed to the residents entitlement statements that did not take the residents' income into account. For these entitlements, staff used the tenants' rent to determine the "base monthly rental" but did not determine if the 25% of income criteria should be used.

As a result, some residents received entitlement statements that indicated that they would receive less than the Guidelines require. For example, the Department notified one family that its relocation benefits would be approximately \$6,000 based on the following calculations:

Comparable Rent	\$ 725.00
"Base Monthly Rental" (Rent)	<u>[600.00]</u>
	125.00
Difference	
x 48 Months	<u>X 48.00</u>
Calculated Entitlement	<u>\$6,000.00</u>

However, if the above calculations had been made using 25% of the family income (\$434 per month), the benefit calculation would have been \$13,968 as is shown below.

Comparable Rent	\$ 725.00
"Base Monthly Rental" (25% of Income)	<u>434.00</u>
	291.00
Difference	
x 48 Months	<u>X 48.00</u>
Calculated Entitlement	<u>\$13,968.00</u>

Thus, by not using the 25% of income criteria the residents relocation benefits were understated by \$7,968 (\$13,968-\$6,000).

Similarly, the Department notified a couple that their benefits would be approximately \$13,000. If the Department had considered the couple's income, their benefits would have been \$17,000, or \$4,000 more. Although these residents were eventually paid higher benefits, the Department's initial calculations did not meet the State Guideline requirements. According to Department staff, extreme time pressure caused the Department to not calculate benefits using income information.

*Did Not Adequately Address The Relocation
Needs of Residents Displaced By Private Parties
In Furtherance Of Public Purpose Projects*

The Guidelines state that a displaced person is any person who moves from real property either as a result of the development of real property by a public entity or by any person or private developer having an agreement or acting on behalf of the public entity. The Guidelines further state that persons displaced because of private development carried out on behalf of the public entity are entitled to relocation benefits. The intent of this action is to ensure that residents displaced because of private development on behalf of a public entity receive the same treatment as residents displaced directly by the public entity.

During 1984 and 1985, the Redevelopment Agency engaged in negotiations with a private developer to provide parking in the Guadalupe-Auzerais Redevelopment area. In April 1985, a proposed lease between the developer and the Redevelopment Agency was prepared and submitted to Redevelopment Agency's Executive Director. The proposed agreement specified that the developer was to deliver the site to the Redevelopment Agency in an improved condition and that the developer was to perform all relocation. However, the proposed agreement did not adequately address the relocation needs of the tenants living on the property. Specifically, the agreement did not require the developer to pay the residents to be displaced in accordance with the State Guidelines.

Soon after the proposed lease agreement was submitted to the Agency's Executive Director, the developer initiated displacement activities on the sites to be improved. Specifically, on the property the developer already owned, he notified the tenants that they would have to move and offered them only minimal relocation benefits. In addition, on other property that the developer was in the process of acquiring, a property management company notified tenants that they had to move but offered them no relocation benefits. Thus, in the same redevelopment area, the City, a developer, and a property management company were all displacing residents on behalf of the City, with residents being offered relocation benefits that varied from zero to over twenty thousand dollars.

It should be noted that the residents that the private developer attempted to displace subsequently filed a lawsuit against the developer and were eventually compensated. In addition, the City later paid the residents the property management company attempted to displace, the same benefits as the other residents the City displaced from that redevelopment area. This action resulted from a July 1985, General Counsel determination that, because of the existence of the lease between the Agency and the private developer, the parking project constituted a public project and the residents were, therefore, entitled to relocation benefits. Although these residents eventually received relocation benefits, they were needlessly subjected to the prospect of being displaced from their homes without having adequate resources to find comparable replacement housing.

Communication Problems With Residents

Our review revealed that in spite of a concerted effort on the part of the City, communication problems did occur with the residents. We identified numerous communication problems that left the residents confused and distrustful. Some examples of these communication problems are as follows:

- On several different occasions, the City mailed residents 90-day notices to vacate and then later rescinded these notices.

- Residents complained that they were unclear as to whether the Agency or Neighborhood Preservation was managing the project. Therefore, they did not know to which entity they should communicate their problems as a means of ensuring that their problems were addressed.
- Residents complained they received conflicting information from Neighborhood Preservation and the Agency.
- Residents were led to believe that 20% Housing units were available as comparable replacement units; however, most of these units had either not been built, or were otherwise unavailable.
- Residents complained that they received conflicting information from different relocation specialists.

Problems Culminated In a Lawsuit Against the City

The Guadalupe-Auzerais relocation noted above ultimately resulted in the residents filing a lawsuit against the City. The lawsuit had the effect of stopping all displacement activity until the City and the residents who brought the lawsuit agreed to a settlement. Among other things, the settlement required that the Citizen's Participation Committee complete its Last Resort Housing Plan and that the City make three valid offers to relocate displacees from the Convention Center project and the Guadalupe-Auzerais West projects into 20% Housing units.

THE CITY INCURRED UNNECESSARY AND EXCESSIVE PROJECT COSTS

Our review revealed that the City incurred unnecessary and excessive costs on the Guadalupe-Auzerais relocation project. These costs included the following:

- Extraordinary Last Resort Housing Plan relocation benefits
- Questionable relocation benefits
- Excessive staff costs
- Additional security and maintenance costs
- Additional legal costs
- Non-monetary costs

*The Last Resort Housing Plan
Resulted in Extraordinary Benefits*

The Last Resort Housing Plan for Guadalupe-Auzerais West included deviations from the State Guidelines and City policies that resulted in extraordinary relocation benefits.

Specifically, the plan included the following deviations:

- The plan allowed individual members of the same household to receive separate entitlements rather than one entitlement for the entire household.
- The plan imposed a stricter definition of comparable replacement housing than the guidelines require.
- The schedule of housing costs that was used to calculate benefits was higher than the actual cost of units available on the open market.

Combination of these deviations resulted in the City paying approximately \$1 million in relocation benefits that exceeded the minimum requirements of the State Guidelines. These deviations from the State Guidelines are described below.

Separate Entitlements

The Comparable Study Policy in the Last Resort Housing Plan allowed members of a household to separate and each person that separated to receive an individual relocation benefit. This policy is not only contrary to State Guidelines but resulted in at least \$500,000 in additional relocation benefits as well. Specifically, Section 6106 of the Guidelines states:

"...two or more individuals (whether they are members of a family or not) living together and displaced from a single dwelling should be regarded as one person."

Relocation benefits are intended to allow a displacee to live in a comparable replacement unit for four years. The City has historically calculated relocation benefits for displaced residents under the assumption that the members of a household were one unit. Under this approach, if the members of the household chose to separate upon relocation, they would split the single entitlement. However, the Guadalupe-Auzerais West Last Resort Housing Plan extended separate entitlement opportunities to all households.

The separate entitlement clause of the Guadalupe-Auzerais West Last Resort Housing Plan not only resulted in increased relocation benefits but also provided an incentive for individuals who were not documented residents to file relocation claims. Although the Plan stipulated a deadline for requesting

separate entitlements, individuals are still filing claims alleging they resided in the project area and are therefore eligible for benefits. In fact, one year after the deadline, two households have filed additional claims for family members whose eligibility was not previously documented. These two claims, currently under appeal, could result in an additional cost of \$26,000 each.

The overall effect of the separate entitlement clause was significant as a total of 19 households elected to separate to take advantage of this provision. From these 19 households, Neighborhood Preservation calculated 51 separate entitlement statements. Thus far the total additional cost of these claims resulting from split entitlements is at least \$500,000. This total may increase, however, as additional claims may be filed.

It should be noted that the State Guidelines do allow for separate entitlements provided they are necessary to provide for the needs of the displacees. For example, a household consisting of two married couples with two children each, and a single grandparent would require either a five-bedroom housing unit or separate entitlements to allow for more than one housing unit. However, it should also be noted that the Last Resort Housing Plan extended the separate entitlement option to all households regardless of the needs of the displacees.

Comparable Replacement Housing

Additional relocation expenses have also resulted because the Guadalupe-Auzerais West Last Resort Housing Plan imposed a stricter definition of comparable replacement housing than the Guidelines require. Specifically, the Guidelines state that to be considered comparable, the replacement unit must be decent, safe and sanitary with respect to the number of rooms and living space. The State Guidelines also allow the displacing entity to relocate the members of a household into a unit that is functionally equivalent. In other words, displacees residing in a house may be relocated into an apartment. The Guadalupe-Auzerais West Last Resort Housing Plan, however, requires that each household's benefits be based upon units which are exactly comparable to the displacee's previous living situation. That is, a house for a house, a duplex for a duplex, or an apartment for an apartment. The intent of this requirement is to allow the residents to relocate into a unit with similar amenities to the one from which they moved. Although Neighborhood Preservation usually attempts to replicate the type of housing when relocating residents, the Guadalupe-Auzerais West Last Resort Housing Plan absolutely required exact comparability. That factor, combined with the separate entitlement provision discussed above, exacerbated the degree to which extraordinary relocation benefits were paid. Specifically, the comparable housing and split entitlement provisions allowed each member of

a shared housing unit to have their benefits calculated based upon each member relocating to the same type of housing unit. Therefore, multiple households or residents sharing a single-family home would have had their benefits calculated based upon each household or resident relocating to a single-family residence.

The Schedule Of Housing Costs

The third change the Guadalupe-Auzerais West Last Resort Housing Plan made in the comparable study policy was to establish the cost of comparable replacement housing based on a schedule rather than the actual cost of comparable units available at the time of displacement. Previously, the City determined the fair market rent based on three units that were similar to the displacee's residence and were available on the open market. However, the Citizen's Participation Committee developed its own schedule of fair market rents. Although the State Guidelines allow the use of such a schedule, relocation experts do not recommend this method because there is no assurance that a schedule is timely, realistic or an accurate reflection of available housing units. According to Neighborhood Preservation staff, the rents specified on the schedule were approximately \$50-\$100 per month higher than the market. In fact, a review of the rental units listed in the San Jose Mercury News on November 17, 1987 revealed that the schedule which the Department is still using to calculate entitlements, is approximately \$100 per

month higher than the average cost of available housing. Such a difference can significantly increase relocation costs. For example, the average cost of a one bedroom apartment in the San Jose area as of November 1987, is approximately \$500 per month, or \$100 per month less than the rent specified on the schedule. Since the City calculates entitlements based on 48 months of rental payments, a \$100 per month difference increases the entitlement by \$4,800 ($\$100 \times 48 = \$4,800$)

As a result of the split entitlement, comparable housing and schedule of payments provisions of the Guadalupe-Auzerais West Last Resort Housing Plan, the cost to relocate a household increased by two to five times. For example, three roommates, who, under the Guidelines, would have split \$18,624 to relocate to a two bedroom unit, instead had their benefits calculated based upon each moving into a one-bedroom single-family residence. This increased the cost to relocate this household to \$88,205 or over four times the minimum required by the Guidelines. In another instance, a family of four adults split into three households, thus increasing their benefits from \$13,968 to \$94,368.

In our opinion, based upon our discussions with Department staff, State Officials and relocation experts and our review of the available records, the benefits the City paid the residents in the Guadalupe-Auzerais West Relocation Area were, by

definition, extraordinary. Webster's New Collegiate Dictionary defines extraordinary as "gaining beyond what is usual, regular, or customary: exceptional to a very marked extent." The benefits the City paid to the Guadalupe-Auzerais West residents meet the above definition in a very real sense. It is generally accepted that the City of San Jose is the only public entity in California that has allowed relocation benefits to be paid based upon split entitlements, exact comparable housing and a Citizens Participation Committee prepared schedule of rents.

Questionable Relocation Benefits

Documentation is essential in a relocation program to ensure that benefits are properly calculated and that only eligible residents receive benefits. However, our review revealed that in some instances the Department calculated relocation benefits without verifying resident reported income or rent and did not adequately document eligible residents. As a result, it appears that the Department has overpaid some relocation benefits because of falsified information and may have paid benefits to some residents who were not eligible.

State Guidelines specify that "base monthly rental" is the basis for calculating relocation benefits. The guidelines also define "base monthly rental" as the lesser of a resident's average monthly rent for the three month period before negotiations started or 25 percent of the displaced person's average monthly income. Because of the way benefits are

calculated, the lower the "base monthly rental," the higher the relocation benefits. Thus, it would be in the economic interest of a resident to understate his or her monthly income or rent for purposes of relocation benefit calculations. Mindful of that risk, it is essential that the Department verify a resident's reported monthly income or rent by examining a paycheck, tax return, bank statement, rent receipt, cancelled check or some other form of documentation. However, our review revealed that the Department did not always require residents to provide any proof or documentation to support their reported monthly income or rent. As a result, the Department may have overpaid relocation benefits based upon insufficient or falsified information.

For example, during initial relocation interviews, one couple claimed to have a combined income of \$2,000 per month. As such the couple's entitlement would have been \$10,320. However, the couple later signed a statement claiming that their combined income was only \$300 per month. This revised income figure increased the couple's entitlement to \$25,200. In this case, the couple's revised income claim is questionable because the couple later qualified for an \$88,000 loan to purchase a house that required monthly payments of approximately \$770 per month, or \$470 more than the couple's reported monthly income. In another case, a resident who claimed monthly income of only \$587, subsequently purchased a mobile

home. The required monthly payments on the mobile home and space rental were \$422 per month, over 70% of the resident's reported monthly income.

In our opinion, the Department should promulgate a formal policy relative to verifying monthly income or rental. In those instances where a resident either refuses to or cannot provide proof of his or her reported monthly income or rent, the Department should calculate relocation benefits based upon an assumed economic rent. Such an approach would not only reduce the risk that the City might overpay relocation benefit but should expedite the relocation benefit calculation process as well.

In addition to possibly overpaying relocation benefits, the City paid relocation benefits to some residents based upon poorly documented proof of eligibility. After the Last Resort Housing Plan was approved in July 1986, residents that were not previously identified as being eligible began filing claims for relocation benefits. For example, the initial relocation appraisal report for a subdivided house identified four families as being eligible for benefits. However, since the Last Resort Housing Plan was approved, three more persons have claimed to have been living in the house at the time of the appraisal report. These three claimants subsequently received relocation benefits.

Since Neighborhood Preservation did not adequately document which residents were eligible for benefits, the City has had to resort to less reliable means to determine eligibility. For example, the City has checked driver's licenses, money order receipts, and other sources to determine eligibility. Consequently, the City may have paid relocation benefits to residents who were not eligible. In addition, the City continues to be exposed to the risk that persons that are not eligible will claim and subsequently receive relocation benefits.

*Neighborhood Preservation Did Not Provide
The Agency Board an Adequate Analysis
of the Costs of the Last Resort Housing Plan*

According to State Guidelines, the local legislative body must approve a Relocation Plan, which includes a Last Resort Housing component. The Relocation Plan must include an estimate of its cost and identify the source of the necessary funds. However, our review of the information the Department provided to the Board regarding the fiscal impact of the Guadalupe-Auzerais West Last Resort Housing Plan revealed that the Department's analysis was not based on the best available information, not sufficiently detailed and significantly understated the cost of the plan. As a result, the Agency approved the Last Resort Housing Plan without being sufficiently informed as to its fiscal impact.

In June 1986, Neighborhood Preservation submitted the Guadalupe-Auzerais West Last Resort Housing Plan to the Redevelopment Agency Board for review and approval. The Plan, as the State Guidelines require, included Neighborhood Preservation's estimate of its fiscal impact. Neighborhood Preservation estimated that it would cost approximately \$1.4 million to relocate 65 (plus) households. A subsequent memorandum from Neighborhood Preservation estimated that 13 households were likely to take advantage of the separate entitlement clause in the Last Resort Housing Plan and that their benefits would be increased by approximately \$100 per month or a total of \$62,400. This memorandum was presented to the Board as an addendum to the Guadalupe-Auzerais West Last Resort Housing Plan. Thus, the information that was submitted to the Board indicated that the total cost of the Guadalupe-Auzerais West Last Resort Housing Plan was \$1,462,400.

The cost of the Last Resort Housing Plan has been much greater than the estimate Neighborhood Preservation submitted to the Redevelopment Agency Board. To date, the City has paid over \$2.7 million in relocation benefits, or approximately \$1.2 million more than what the Board was told. Moreover, this total may increase because some residents can still have their relocation benefits calculated to a higher amount and some relocation cases are currently under appeal. In addition, another potentially costly aspect of the Guadalupe-Auzerais

West Last Resort Housing Plan is the provision that residents receiving rental assistance will continue to do so indefinitely until such time as affordable 20% Housing is made available.⁽¹⁾ As of December 8, 1988, 39 residents are receiving approximately \$150,000 per year in rental assistance. These payments will continue until these residents are offered affordable permanent 20% Housing in the Downtown Central Incentive Zone.

The primary reason for the large disparity between the estimate Neighborhood Preservation submitted to the Agency Board and the actual costs incurred is that Neighborhood Preservation did not base its estimate on the best available information. In fact, at the time the Department submitted the Last Resort Housing Plan to the Board for approval, Department staff had estimated the cost of the Last Resort Housing Plan to be over \$2.4 million or \$900,000 more than the estimate Neighborhood Preservation submitted to the Agency Board. As far as we can determine, the Department has not provided the Agency Board with the more accurate assessment of the cost of the Guadalupe-Auzerais West Last Resort Housing Plan.

⁽¹⁾It should be noted that the 20% Housing requirement was included in the Guadalupe-Auzerais West Last Resort Housing Plan because of the lawsuit that was filed against the City.

Our review also revealed that Neighborhood Preservation's estimate of the cost of the Last Resort Housing Plan was not sufficiently detailed. Specifically, the estimate did not include staffing costs or moving expenses, both of which were significant. For example, the Plan had a major impact on staffing costs because it allowed the residents to have their entitlements recalculated. In addition, the separate entitlement clause increased the Department's staff workload because additional entitlements had to be calculated. Finally, as of November 1987, the City had incurred over \$100,000 in moving costs because of Guadalupe-Auzerais West relocations. The City will incur additional moving costs when and if displaced residents on rental assistance are moved into 20% housing units.

Staff Costs Were Higher Than Necessary

Neighborhood Preservation's staff costs were higher than they should have been. Neighborhood Preservation staff worked on these projects for nearly four years at a cost of approximately \$1.6 million.* If these projects had been managed in an efficient manner, the costs could have been less. For example, relocation work was significantly slowed and eventually stopped because of the problems encountered in the Guadalupe-Auzerais West project area. Yet, staff were

* This total includes salaries, benefits, and Department overhead costs.

still assigned to and working on the project, thus, incurring additional costs. In addition, the work on the project was performed inefficiently and incorrectly. For example, untrained and unsupervised staff were assigned to the project. In many instances their work had to be redone. Furthermore, the Last Resort Housing Plan significantly increased the relocation workload. For example, the Last Resort Housing Plan allowed residents to have their relocation benefits recalculated. Also, by calculating separate relocation benefits for each member of a household, the amount of work for each case increased by the number of members in the household claiming separate benefits. Finally, the Department's files were poorly organized and documented, thus precluding efficient work. In summary the project delays and inefficient work increased the staffing costs of the site delivery process.

Additional Security and Maintenance Costs

The City incurred additional security and maintenance costs that would not have been necessary had the project been carried out properly. The City's initial plan was to: 1) purchase the units, 2) relocate the people, and 3) demolish the units. The City originally did not intend to rent the purchased units to the residents already living there. However, because of problems in securing comparable replacement housing, the City

was required to rent the units to some residents. Having the residents stay exacerbated security problems in the area because some units were vacant and transients were using them as shelters. Because of unauthorized uses of vacant units, the City contracted with a security company to provide security in the area. The cost of this service was approximately \$250,000. In addition to security costs, the City incurred additional costs to either maintain or upgrade the units to be decent, safe, and sanitary. Finally, the City incurred additional staff costs to manage the properties acquired.

Additional Legal Costs

The Agency's General Counsel contracted for outside counsel to litigate the lawsuit against the City. In addition, the settlement required the Agency to pay the legal Plaintiff's fees. The sum of these legal services was approximately \$120,000.

Non-Monetary Costs

In addition to the excessive monetary costs of the project, the City has incurred non-monetary costs such as negative publicity and the loss of staff morale in Neighborhood Preservation. The City's handling of the site delivery process in the Guadalupe-Auzerais Redevelopment Area has resulted in

extensive negative publicity for the City. Specifically, the media has frequently criticized the City for the manner in which the project was administered. In addition, residents in the area and community activists have united in opposition to the City's handling of the relocation and redevelopment program.

Further, Neighborhood Preservation staff have experienced a loss of morale as a result of its handling of these projects. Staff have been frequently criticized by residents, community activists, and other City officials. According to the Real Estate Administrator, because of problems experienced in the Guadalupe-Auzerais Redevelopment Area, two staff members resigned, some staff members begged to be transferred out of the field office and others considered it a punishment to be transferred to the project. In addition, three consultants that had relocation cases also quit.

THE NEED FOR A FORMAL SYSTEM
TO MANAGE THE SITE DELIVERY PROCESS

The site delivery process is a complicated process involving many interrelated activities and numerous legal requirements. It is also a process that requires sensitivity because it often involves acquiring property from long term owners and displacing persons who maybe low income and/or elderly. As a result, projects must be adequately planned, controlled and directed.

A formal project methodology is a collection of policies, methods, procedures, practices, and definitions that provide assurance that adequate project planning, controlling and

directing occurs. Specifically, a formal project methodology details how project objectives are to be accomplished by providing a "blueprint" for managing the project. The components of a formal project methodology include the following:

- Checklists for planning the project.
- A list of steps in the site delivery process.
- Time standards for all steps which can be used for scheduling the project.
- Predetermined formats for schedules and the level of detail to be scheduled.
- Standardized management reports.
- Procedures and forms for developing project budgets.
- Procedures for reviewing project plans.
- Procedures for tracking and reporting progress.
- Procedures for revising project plans and budget.

Among other things, an effective project methodology would:

- Provide an efficient and systematic method for managing projects.
- Provide assurance that all requisite tasks are considered.
- Clearly identify who is responsible for or has the authority to conduct various site delivery process activities.
- Promote communication between various City components, private parties and residents.
- Improve overall project management.
- Provide a rational basis for evaluating project performance and allocating resources.

RELOCATION PROBLEMS WERE THE
RESULT OF POOR PROJECT MANAGEMENT

Our review found that the problems described earlier were the result of poor project management. Specifically, we identified that the Department's project management system did not contain the requisite elements noted above. As a result,

- Project planning was poor;
- Neighborhood Preservation did not establish an adequate system of control over project work; and
- Neighborhood Preservation did not adequately direct project staff.

Project Planning Was Poor

Our review found that the site delivery projects were poorly planned. Specifically, we found that Neighborhood Preservation and the Redevelopment Agency did not adequately define their responsibilities in the site delivery process, and Neighborhood Preservation did not develop written policies to provide direction and guidance to staff in achieving its objectives.

Did Not Clearly Define Responsibilities

Clearly defining responsibilities is necessary to achieve project objectives, establish accountability, and make efficient use of resources. As Finding I demonstrates, Neighborhood Preservation and the Redevelopment Agency did not adequately define their respective responsibilities in the site delivery process.

Did Not Develop Policies To Guide Staff

It is management's responsibility to define how its objectives are to be met. Written policies and procedures are tools that management uses to provide direction and guidance to staff in implementing management's objectives. Developing written policies to guide staff is a critical managerial responsibility. Absent management providing clear, written policies to guide staff during site acquisition, the following problems can occur:

- Management's objectives will not be met;
- Confusion on the part of staff and residents;
- Lack of control over the relocation process and acquired property; and
- Inconsistent treatment of residents.

However, our review found that the City did not establish written policies for the site delivery process. Specifically, we found that the City lacked written policies for the following areas:

- The process the City should follow to comply with applicable laws and regulations and to ensure fair, equitable, and consistent treatment to property owners and displacees;
- Communication to property owners and residents affected by the project;
- Defining the role of citizen groups in the site delivery process;

- Determining residence requirements for establishing eligibility for relocation benefits;
- Verifying information necessary to determine relocation benefits;
- Situations warranting the payment of separate relocation benefits to members of the same household;
- Extending benefits to residents living in the project areas that are displaced because of private development that furthers the City's redevelopment program; and
- Dealing with resident problems.

Many of the problems that we identified earlier could have been avoided or minimized if management had established clear, written policies to guide implementation of the project. For example, management did not clearly define the process to be followed in implementing the relocation program. The City's failure to comply with State Guidelines was due in part to inadequately informed and trained staff. This could have been avoided if management had taken steps to clearly define the relocation process before implementing the project. Furthermore, the City could have minimized the payment of excessive relocation benefits if it had established clear policies to ensure fair and consistent treatment of residents. Instead, the City operated in a reactive, as opposed to proactive mode, in dealing with relocation problems in the Guadalupe-Auzerais West Redevelopment Area. This resulted in some residents being paid extraordinary relocation benefits.

Need For An Effective Control System

An effective control system is comprised of adequate and sufficient procedures, processes and management information to provide reasonable assurance that an organization will meet its objectives. An effective control system for a site delivery project would provide reasonable assurance that:

- Relocated residents are treated fairly and consistently;
- The cost to acquire property is reasonable;
- The project is completed in a timely manner;
- Staff costs are minimized through the effective and efficient use of resources; and
- Legal requirements and other considerations are met.

Did Not Establish An Effective System Of Control

Our review revealed that the Department of Neighborhood Preservation did not establish an effective system of control to guide the work in the Guadalupe-Auzerais Redevelopment Area. Specifically, we determined that the Department:

- Did not adequately analyze the tasks involved;
- Did not adequately consider staffing requirements;
- Did not develop adequate project schedules;
- Did not develop adequate project budgets;
- Did not adequately review project plans prior to implementation;

- Did not effectively control the projects; and
- Did not adequately direct the work effort.

Did Not Adequately Analyze The Tasks Involved

The first step in establishing an effective control system is to define the tasks necessary to complete the project and integrate those tasks into a comprehensive workplan. Once the workplan is completed, it is necessary to estimate the time required to complete the tasks in the workplan. This process of analyzing the work is critical to the entire control system because it becomes the basis for assessing staffing needs, developing project schedules, establishing project budgets, reviewing progress, and ultimately controlling the project.

Our review revealed, however, that Neighborhood Preservation did not adequately analyze the requisite tasks prior to initiating work on the Guadalupe-Auzerais relocation project. Specifically, Neighborhood Preservation did not define all of the tasks necessary to complete the project and comply with applicable laws and regulations. Thus, Neighborhood Preservation proceeded with planning and implementation of the project without having information that was critical for effectively implementing and controlling the project. As a result, Neighborhood Preservation never had an adequate basis for assessing its staffing requirements, scheduling various tasks, developing detailed budgets, or controlling the Guadalupe-Auzerais relocation project.

Did Not Adequately Consider Staffing
And Resource Requirements

Because Neighborhood Preservation did not adequately define the requisite tasks for the Guadalupe-Auzerais relocations, the Department's assessment of its staffing and resource needs was flawed. In addition, the Department never prepared a written detailed staffing analysis or considered the availability of staff prior to initiating work on the projects. For example, when the Department started the Guadalupe-Auzerais West Phase I project, it failed to recognize that sufficient staff would not be available because Department staff were already working on the Convention Center and Airport relocation projects.

According to the Director of Neighborhood Preservation,

"...the Property Division in early 1985 lacked adequate clerical staff, a sufficient number of real estate agents, relocation specialists and supervisors, and had little capacity for dealing with Spanish speaking clients. Division management was inadequate in that the Division was headed by a Principal Civil Engineer rather than a Real Estate professional. Additionally there were no support positions for budget planning or analysis functions. Inadequate management at the outset of the project significantly contributed to many of the problems..."

Neighborhood Preservation's failure to adequately consider its staffing needs resulted in significantly understaffed projects, particularly those projects in the Guadalupe-Auzerais West area. For example, one relocation specialist working the Guadalupe-Auzerais West project had over 50 residents in her caseload, which is twice the State recommended

standard. Inadequate staffing caused: 1) the Guadalupe-Auzerais projects to fall behind schedule, 2) staff work to be hurried and sloppy, and 3) a plethora of problems with the Guadalupe-Auzerais residents. The Department's Relocation Supervisor accurately summarized the workload situation in an April 1985 memorandum when he stated:

"...This projected workload for next fiscal year, by itself, exceeds the capabilities of 5 well-trained specialists. When this is coupled with the expected carry-over of approximately 100 cases as well as an estimated 250 additional valuation studies that must be prepared in support thereof, the situation is not impossible, it's absolutely insane..."

Our review also revealed that Neighborhood Preservation also lacked the tools necessary to perform relocation activities in an efficient manner. For example, the Department lacked computers to maintain records on residents or calculate entitlements. As a result, staff had to perform its relocation work manually. According to a Neighborhood Preservation Relocation Supervisor, his work became so unmanageable that he used his own personal computer to assist him in doing his work. In addition, the Department does not have the computer software necessary to develop and revise project schedules. Scheduling a relocation project is very time consuming, particularly if "critical path" activities are involved and frequent schedule revisions are necessary. There are computer software packages that can efficiently schedule a project, calculate "critical path" activities, and revise schedules when necessary.

Did Not Develop Adequate Project Schedules

Our review also revealed that the Redevelopment Agency and Neighborhood Preservation did not develop adequate project schedules to manage the Guadalupe-Auzerais projects. Specifically, we determined that the Guadalupe-Auzerais project schedules:

- Were not sufficiently detailed;
- Did not identify "critical path" activities;
- Were not realistic; and
- Were not revised when necessary.

The Guadalupe-Auzerais project schedules were not sufficiently detailed to allow for effective project management. Specifically, the Convention Center schedule did not identify all of the tasks necessary to complete the relocation work. For example, the schedule only stated "complete relocation." Such a designation ignores the fact that the relocation process is comprised of numerous tasks which are not only time consuming but which require precise timing if the relocation process is to be successful. Because these tasks are numerous and must be executed in a precise order, detailed schedules are essential.

In addition, Neighborhood Preservation did not schedule some tasks which were necessary in order to comply with legal requirements. For example, while Board approval of a relocation plan is

required in order to comply with State Guidelines, the Convention Center schedule did not identify Board approval of a relocation plan as a step in the process. In addition, the Guadalupe- Auzerais schedules did not adequately address the need for the Board to approve any Last Resort Housing Plan. Although the Board did eventually approve the Convention Center relocation plan, it never approved the Last Resort Housing component of that plan.

Another Guadalupe-Auzerais project schedule deficiency was that "critical path" activities were not identified. As a result, the project schedules were inadequate given the complexity and magnitude of the projects. Specifically, the format for graphically presenting the project was a bar chart that showed the timeline for various activities. However, the bar chart failed to identify activities that must be performed before subsequent activities can be performed, or "critical path" activities. For example, the Convention Center schedule did not identify the initiation of a relocation plan as a "critical path" activity. However, State Guidelines require that a relocation plan be initiated within 15 days of the initiation of negotiations to acquire property. Absent the identification of a relocation plan as a "critical path" activity, management lacked an important means of monitoring staff activities. This may explain why staff continued negotiating with property owners and purchasing property even though a relocation plan had not been initiated.

The Guadalupe-Auzerais project schedules were also deficient because they were sometimes not realistic. For example the project schedule for the Convention Center project called for relocation activities to begin on July 1, 1983. However, the schedule was not submitted to the Redevelopment Agency Executive Director for approval until August 3, 1983, some 34 days after relocation activities were scheduled to start. The Convention Center project schedule was never revised to reflect the delay in starting the project in spite of the fact that the project was already a month behind schedule before it was approved.

As is indicated above, another Guadalupe-Auzerais project schedule problem was that schedules were developed early and not revised when projects fell behind schedule. For example, in July 1985, serious problems were developing on the Guadalupe-Auzerais West Phase I project. The project was significantly behind schedule in that the City had not fulfilled the provisions of Last Resort Housing, the Board had not approved a relocation plan, and the Department had not calculated entitlements as scheduled. At this point the prudent course of action would have been to recognize that delays had occurred and to revise the project schedule accordingly. This was not done. Instead, the Agency notified the Department to not deviate from the schedule. Accordingly, the Department prematurely sent 90-day notices to the residents to be

displaced in an effort to complete the relocation as planned. This caused the Department to initiate displacement activities prematurely and to take short-cuts when preparing entitlement statements. In addition, supervisory review of entitlement statement calculations were minimal or non-existent. As a result, the City violated State Relocation Guidelines and some residents were subjected to unnecessary hardships. It should be noted that on April 1985 Relocation Supervisor memorandum predicted the above situation when it stated in part:

"...What we have then with just the current assigned work is an overload situation. When that occurs other things happen:

- 1) Quality of service goes way down;*
- 2) Shortcuts in procedures and documentation are attempted,*
- 3) Error rate goes way up;*
- 4) Morale goes way down;*
- 5) Professionalism becomes a joke;*
- 6) The above factors accentuate the problems and generate even more errors, lower service standards, etc...."*

Did Not Develop Adequate Project Budgets

Project budgets provide fiscal control by establishing a basis for assessing the reasonableness of estimated costs and for subsequently comparing those estimated costs to actual costs incurred. Any significant deviations between estimated and actual costs can be questioned for reasonableness and

appropriateness. Accordingly, project budgets should be sufficiently detailed and based upon the best available information in order to provide a basis for controlling costs.

It is axiomatic that the project budgets should provide management with sufficient budget detail to afford adequate fiscal control. However, our review revealed that Neighborhood Preservation's project budgets were not sufficiently detailed. For example, the budget estimates for land in the Guadalupe-Auzerais West projects identified an estimate for the land costs and an estimate of overhead costs. Although overhead costs include such items as escrow and title fees, staff time, taxes and appraisals, none of these items were specifically identified in the project budget. In our opinion, management could have exercised greater fiscal control over the project if those costs had been identified in the budget.

We also noted that Neighborhood Preservation did not revise its project budgets even when actual costs significantly exceeded the budgeted amounts. For example, Neighborhood Preservation has never revised its budgeted \$1.4 million to relocate residents in the Guadalupe-Auzerais West area in spite of the fact that the City has incurred over \$2.7 million in relocation costs.

Did Not Adequately Review Project
Plans Prior To Implementation

A thorough and vigorous pre-implementation review of plans for projects the size of the Guadalupe-Auzerais West relocations is one way to ensure that the plans are feasible and that any unique project constraints, such as legal requirements, have been considered. Such a pre-implementation, review can be accomplished via a peer review, a less formal review with colleagues, or a review by selected team members.

However, we found that the plans for the Guadalupe-Auzerais relocation projects were not subjected to any detailed review to ensure feasibility and the General Counsel's Office never reviewed these plans for compliance with laws. In our opinion, such a review may have detected some of the deficiencies in the project schedules that ultimately resulted in the circumstances described in this report.

Did Not Effectively Control The Project

Neighborhood Preservation's poor project planning also hindered its ability to subsequently control the projects. We found little evidence that Neighborhood Preservation performed activities necessary to control the project. Specifically, Neighborhood Preservation staff did not regularly track project progress or prepare regular written progress reports. In

addition, staff did not maintain project diaries to document project progress or any special problems that were encountered. According to Neighborhood Preservation and Redevelopment Agency officials, meetings were held to discuss project progress; however, the results of those meetings were never recorded, otherwise documented, or compared to the project schedules. Finally, as mentioned earlier, project schedules were not revised even when the projects were significantly behind schedule.

Did Not Adequately Direct The Work Effort

Adequate directing of any work effort is necessary to ensure that the work is performed according to management's objectives. Adequate directing includes written procedures, training, and adequate supervision.

Our review revealed that Neighborhood Preservation did not adequately direct the relocation process for the Guadalupe-Auzerais West projects. Specifically, we found that the workers were not adequately trained or supervised. As a result, poorly trained staff were assigned to difficult cases, and experienced staff were assigned large caseloads. Moreover, relocation supervisors were overworked and unable to sufficiently train staff or review their work. Consequently, the quality of the work suffered, the work was not performed

efficiently, short-cuts in procedures were taken, and adequate records were not kept. Staffing deficiencies, high turnover of staff, and unrealistic deadlines were the principle causes of the Department's failure to adequately direct the projects.

Corrective Action

Since July 1985, the Department of Neighborhood Preservation has taken several steps to improve the efficiency and effectiveness of its real estate functions. Specifically, the Department has increased its staffing from 16 to 32 employees. In addition, the Department hired a real estate professional to become Division Chief of the Real Estate Division. Prior to increasing its staff, the Department typically contracted out for many aspects of its real estate activities. However, the increased staffing has provided the Department with the capability of planning, budgeting, coordinating, analyzing, implementing, and monitoring its real estate activities. The increased staffing has also improved the Department's clerical support.

CONCLUSION

The Department of Neighborhood Preservation did not adequately manage the site delivery process in the Guadalupe-Auzerais Area. Specifically, the projects were poorly planned,

controlled, and directed. As a result, project's objectives were not met, the City did not initially provide fair, equitable, and consistent treatment to some residents and the City incurred substantial unnecessary costs. The City's projects in the Guadalupe-Auzerais Redevelopment Area were not managed effectively and the resultant negative effects have been profound. The deficiencies noted above are symptomatic of a basic Department deficiency. That is, Neighborhood Preservation lacks a formal project methodology to administer its projects. The Department needs to develop such a system to prevent future projects from experiencing some of the same problems described in this report.

RECOMMENDATIONS

To ensure that future relocation projects are carried out efficiently and effectively, we recommend that the Department of Neighborhood Preservation:

Recommendation #5:

Develop a formal project methodology to provide an efficient and systematic method for planning and monitoring future projects. The project methodology should include the following:

1. A project planning checklist to be used as a guide for planning future projects.
2. Definition of the responsibilities and authority of all staff.
3. Standardized management reports of internal and external uses.
4. Formal lines of communication.
5. Procedures for modifying project schedules and plans.
6. Procedures for obtaining legal interpretations.
7. Procedures for developing detailed project plans.
8. Procedures for determining project staffing needs.
9. Procedures for developing detailed project schedules.
10. Procedures for estimating project costs, developing detailed budgets, and for revising budget estimates.
11. Procedures for reviewing project plans prior to implementation.
12. Procedures for monitoring the progress of projects including procedures for collecting data on progress, preparing progress reports, and comparing progress to plans.
13. Procedures for maintaining a project diary. (Priority 2)

Recommendation #6:

Develop and implement a model outline of the site delivery process. This outline should:

- Identify all activities to be performed.
- Establish the timing of each activity.
- Establish performance requirements for each activity.
- Establish responsibility for performing activities.
(Priority 2)

Recommendation #7:

Provide periodic training to staff on its relocation procedures. (Priority 3)

Recommendation #8:

Develop procedures to ensure supervisory review of work and develop forms to document such reviews. (Priority 3)

Recommendation #9:

Develop formal procedures for verifying resident reported monthly income or rent and for using economic rent to calculate relocation benefits. (Priority 2)

Recommendation #10:

Develop written procedures for collecting and maintaining adequate relocation records. These procedures should specify requirements for the following:

- Data collection.
- File maintenance.
- Verification of eligibility.
- Documentation of compliance with applicable codes and regulations.
- Periodic supervisory review of files. (Priority 3)

Recommendation #11:

Request the authorization to purchase the following equipment:

- Computers to assist in maintaining files and calculating benefits for displaced residents.
- Project scheduling software to allow for efficient calculation and revision of project timelines. (Priority 3)

In addition, we recommend that the Department of Neighborhood Preservation, the Redevelopment Agency and the Agency General Counsel:

Recommendation #12:

Jointly develop a written policy regarding the rights of those residents displaced by private parties in furtherance of public purpose projects. (Priority 3)

Finally, we recommend that the Redevelopment Agency General Counsel:

Recommendation #13:

Prepare a handbook that summarizes those laws and regulations that pertain to the site delivery process. (Priority 3)

Recommendation #14:

Review future site delivery projects for compliance with applicable codes and regulations. (Priority 3)

C I T Y O F S A N J O S E - M E M O R A N D U M

TO: Honorable Mayor and
City Council

FROM: Les White
Assistant City Manager
Frank M. Taylor
Executive Director

SUBJECT: RESPONSE TO AUDIT OF
REDEVELOPMENT SITE
DELIVERY PROCESS

DATE: January 15, 1988

APPROVED

DATE _____

Staff of the Department of Neighborhood Preservation and the Redevelopment Agency have reviewed the Audit of Redevelopment Site Delivery Process. On the whole, the Audit describes accurately the problems experienced in acquiring and managing the sites for the Convention Center, the High Technology Museum, the Children's Discovery Museum and the Prevost Street widening. The acquisitions under review occurred over a period of nearly four years during which numerous problems were experienced and significant improvements were made. With only minor exceptions, the Administration concurs with the recommendations which are included in the Audit Report; in fact, many of the recommendations have already been implemented in one form or another. The recommendations are good, and will assist in making future City and Agency property acquisition efforts more efficient.

At the same time, we believe that anyone reading the Audit should have some understanding of the organizational, legal and political environment which existed at the time covered in the Auditor's review. Since neither the Audit nor this response are intended to provide a complete history of the events and factors involved, the following background information is brief, but hopefully instructive.

When the Redevelopment Agency approved the Convention Center project and initiated the property acquisition program in 1983, there were only 17 positions in the Real Estate Division of the Neighborhood Preservation Department compared to the 33 positions currently budgeted. Additionally, during the period of the acquisition effort, several critical vacancies occurred in this unit, including significantly the positions of Division Chief and Supervising Relocation Specialist. As the Audit reports, many of the problems occurred before staffing was sufficient to carry out an ambitious site delivery program.

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CITY AUDITOR

A difficult circumstance not reported in the Audit was aggressive community organizing which substantially complicated the site acquisition process in the Guadalupe-Auzerais area. Persons from outside the project area assisted the affected neighborhood in drawing media attention to the City's efforts to relocate them. Legal Aid assisted in filing a lawsuit which brought acquisition efforts to a halt and resulted in a court settlement that made substantive changes in the way the project was carried out.

The recitation of the multiple factors and conditions that were in existence at the time of the project does not explain away problems described in the Audit Report. Although a number of mistakes were made during the acquisition program, significant improvements in the process have in fact been made since then. We fully expect that with the changes that have been made and the implementation of recommendations from this Audit Report, future real estate acquisitions for City and Agency projects will be effectively and routinely completed.

RECOMMENDATION #1

Develop and implement a written Memorandum of Understanding that can be used for all future site delivery projects. The Memorandum of Understanding should clearly define the respective roles of each entity for the following:

- Preparing project schedules
- Selecting appraisers
- Reviewing appraisals
- Negotiating with property owners
- Communicating with residents
- Approving benefit payments
- Managing Properties
- Receiving rental payments
- Pursuing delinquent rental accounts
- Securing vacated properties
- Maintaining acquired properties

If Neighborhood Preservation and the Redevelopment Agency are unable to agree on the terms of the Memorandum of Understanding, the City Manager should resolve any differences.

RESPONSE

The Neighborhood Preservation Department and Redevelopment Agency have developed an Administrative Memorandum which carries out direction given by the City Manager in a memorandum dated November 20, 1985. The Administrative Memorandum for Site Delivery of the Community Arena Project clearly defines the roles outlined in Recommendation #1, and will be modified as necessary to create an administrative document which applies to future site delivery projects.

RECOMMENDATION #2

Develop a process whereby the Redevelopment Agency will transfer site delivery funds to Neighborhood Preservation at the beginning of a project. (Priority 3)

RESPONSE

After consultation with the City Finance Department, Neighborhood Preservation and Agency, staff have agreed that acquisition payments should be processed through the Redevelopment Agency's fiscal section to insure that Agency fixed asset records are developed and maintained. The payment requests will be prepared by the Real Estate Division of Neighborhood Preservation and be reviewed by the Agency only for the sufficiency of documentation to allow the payments to be made. This process should eliminate the delays which were described in the Audit Report.

RECOMMENDATION #3

Develop an inventory of Agency owned properties and assign the responsibility for managing these properties to either the Redevelopment Agency or the Department of Neighborhood Preservation. (Priority 2)

RESPONSE

The Real Estate Division of the Neighborhood Preservation Department, with the assistance of the Redevelopment Agency, will prepare an inventory of Agency-owned properties by March 1, 1988. The Division will also manage all the properties according to direction on individual properties provided by the Agency Executive Director.

RECOMMENDATION #4

Develop formal policies and procedures for pursuing delinquent rents, evicting tenants, writing-off uncollectible rents, and communicating rental issues to the City Council or Agency Board. (Priority 1)

RESPONSE

The Real Estate Division has policies in effect for collecting delinquent rents, evicting tenants, and writing off uncollectible rents from City-owned properties. These will be used for all City and Agency-owned properties except where special circumstances warrant different treatment.

RECOMMENDATION #5

Develop a formal project methodology to provide an efficient and systematic method for planning and monitoring future projects. The project methodology should include the following:

1. A project planning checklist to be used as a guide for planning future projects.
 2. Define the responsibilities and authority of all staff.
 3. Standardized management reports of internal and external uses.
 4. Formal lines of communication.
 5. Procedures for modifying project schedules and plans.
 6. Procedures for obtaining legal interpretations.
 7. Procedures for developing detailed project plans.
 8. Procedures determining project staffing needs.
 9. Procedures for developing detailed project schedules.
 10. Procedures for estimating project costs, developing detailed budgets, and for revising budget estimates.
 11. Procedures for reviewing project plans prior to implementation.
 12. Procedures for monitoring the progress of projects including procedures for collecting data on progress, preparing progress reports, and comparing progress to plans.
 13. Procedures for maintaining a project diary.
- (Priority 2)

RESPONSE

The Real Estate Division has hired a full time Acquisition-Relocation Coordinator whose duties include developing a formal project methodology incorporating the recommended procedures.

RECOMMENDATION #6

Develop and implement a model outline of the site delivery process. This outline should:

- Identify all activities to be performed.
- Establish the timing of each activity.
- Establish performance requirements for each activity.
- Establish responsibility for performing activities.

(Priority 2)

RESPONSE

The Acquisition-Relocation Coordinator also has responsibility for defining the site delivery process. The Coordinator will define the responsibilities of each participant and establish the timing of each activity.

RECOMMENDATION #7

Provide periodic training to staff on its relocation procedures. (Priority 3)

RESPONSE

Periodic training is being provided to staff regarding relocation procedures. In addition, all new staff will be given formal training in relocation law and departmental procedures.

RECOMMENDATION #8

Develop procedures to ensure supervisory review of work and develop forms to document such review. (Priority 3)

RESPONSE

A second relocation supervisor was hired in December, 1986, to increase control of the relocation process and to provide more time for review of work. Review forms have been developed and are being used.

RECOMMENDATION #9

Develop formal procedures for verifying resident reported monthly income or rent and for using economic rent to calculate relocation benefits. (Priority 2)

RESPONSE

The overwhelming majority of cases reviewed by the Auditor's staff had documentation which demonstrated that income verification had been performed. The Department is developing procedures for income and rent verification to formalize the current verification practices. Completion is anticipated by July 1, 1988.

RECOMMENDATION #10

Develop written procedures for collecting and maintaining adequate relocation records. These procedures should specify requirements for the following:

- Data Collection
- File Maintenance
- Verification of eligibility
- Documentation of compliance with applicable codes and regulations

RESPONSE

Written procedures are being developed for the collection of data, maintenance of files, and uniform verification of eligibility. Completion is anticipated by July 1, 1988.

RECOMMENDATION #11

Request the authorization to purchase the following equipment:

- Computers to assist in maintaining files and calculating benefits for displaced residents.
- Project scheduling software to allow for efficient calculation and revision of project timelines.

RESPONSE

The Department of Neighborhood Preservation has placed orders for new computing hardware and software for data base management, scheduling and benefit calculation. Meanwhile,

current equipment is being supplemented by personally owned computer equipment. Additional computers are being requested in the 1989 budget.

RECOMMENDATION #12

Jointly develop a written policy regarding the rights of those residents displaced by private parties in furtherance of public purpose projects. (Priority 3)

RESPONSE

Chapter 6, Title 25 of the State Code prescribes the rights of residents who are displaced by private parties in furtherance of public purpose projects. The application of this law to particular situations will require the review and opinion of legal counsel.

RECOMMENDATION #13

Prepare for Neighborhood Preservation's staff a handbook that summarizes those laws and regulations that pertain to the site delivery process. (Priority 3)

RESPONSE

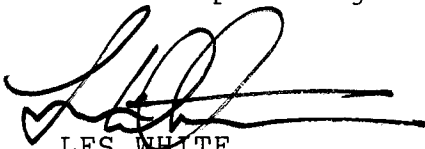
The Agency General Counsel's Office will review available material on the site delivery process and insure that up-to-date, accurate information on the subject is available to assist staff in carrying out this activity.

RECOMMENDATION #14

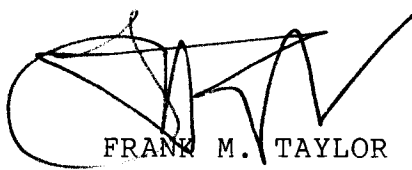
Review future site delivery projects for compliance with applicable codes and regulations. (Priority 3)

RESPONSE

This responsibility will continue to be performed by the General Counsel's Office for projects initiated by the Redevelopment Agency.



LES WHITE
Assistant City Manager



FRANK M. TAYLOR
Executive Director

CITY OF SAN JOSE - MEMORANDUM

Date: September 24, 1986

Date

1. All rents will be reviewed for receipt within five days of their due date. All tenants who have not paid by the fifth day after due date will be sent a letter reminding them of their obligations.
2. On the tenth and twentieth days' overdue, phone calls will be made and progressively more explicit letters reminding the tenants of their obligations and the consequences of not acknowledging and doing something about them will be issued.

To: Rita Hardin, Director

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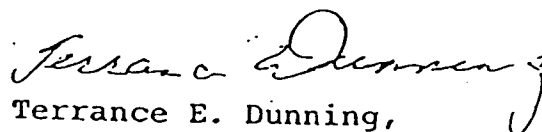
Subject: DELINQUENT RENTS

9-24-86

3. On the thirtieth days' overdue, the property manager will issue a three-day notice to pay or quit.
4. If rent is not received, the City Attorney's Office or the General Counsel's Office will immediately, upon a written request from the Real Estate Administrator, institute unlawful detainer actions. It is unclear to me whether the General Counsel or the City Attorney's Office has the authority to institute these suits absent specific direction by the Board or Council. By copy of this memorandum, I am requesting both of these offices to research this question and further to advise us whether they are comfortable in seeking such authority. Clearly, there will be cases where the City Council will need to be informed and staff will be required to exercise judgment in making sure that the Council's need to know is not in conflict with a fast-moving process.
5. Copies of all delinquency correspondence will be sent to the appropriate attorneys and program managers to keep them fully informed as developments unfold.
6. Once judgments are rendered, the eviction process must be pursued as rapidly as possible and the Finance Department should be instructed to pursue their usual collection efforts through collection agencies and/or lien proceedings.

This procedure or another with similar aims is badly needed in order to better organize our efforts and is long overdue.

The attached documents show an ever increasing number of rental accounts and growing numbers of delinquencies. Lack of consistency is confusing for both the property managers and the tenants.


Terrance E. Dunning,
Real Estate Administrator

TED:au

Attachment

cc: Gary Reiners
Bill Hughes
Bob Leininger